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Auditor General of British Columbia

Follow-up of A Review of Government Oversight of Multi-Employer Public Sector Pension Plans in British Columbia

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OFFICE OF THE
Auditor General
of British Columbia

The Honourable Claude Richmond
Speaker of the Legislative Assembly
Province of British Columbia
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Dear Sir:

I have the honour to transmit herewith to the Legislative Assembly of British Columbia my 2004/05 Report 11: Follow-up of A Review of Government Oversight of Multi-Employer Public Sector Pension Plans in British Columbia.

Wayne Strelioff

Wayne Strelioff, FCA
Auditor General

Victoria, British Columbia
February 2005

copy: Mr. E. George MacMinn, Q.C.
Clerk of the Legislative Assembly

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Auditor General's Comments

I am pleased to present in this report the results of my Office's follow-up work on the *Review of Government Oversight of Multi-Employer Public Sector Pension Plans for British Columbia* report issued in February 2005.

We perform follow-up reviews to provide the Legislative Assembly and the public with an update on the progress made by management in implementing our recommendations and those made by the Select Standing Committee on Public Accounts. Our recommendations are designed to improve public sector performance, and are an important value-added component of our work.

As we complete a follow-up review, we provide a report to the Legislative Assembly, which is referred to the Select Standing Committee on Public Accounts (Appendix B).

Our approach to completing our follow-up reviews is to ask management of the organizations with responsibility for the matters examined to provide us with written representations describing action taken with respect to the recommendations. We then review these representations to determine if the information reported, including an assessment of the progress made in implementing the recommendations, was presented fairly in all significant respects (Appendix C). For this follow-up report, we concluded that it was.

In this report, we provide a summary of the original report, our overall conclusion, a summary of the overall status of recommendations and the ministry's response to our request for an accounting of progress.

I am pleased that management has accepted our recommendations and has taken action to implement them.

I wish to express my appreciation to the staff and senior management of the organizations we reviewed for their cooperation in preparing the follow-up report, providing the appropriate documentation and assisting my staff throughout the review process.

Wayne Strelioff

Wayne Strelioff, FCA
Auditor General

Victoria, British Columbia
February 2005

Report on the Status of Recommendations

Information as to the status of outstanding recommendations was provided to us by the Public Sector Employers' Council Secretariat as of November 30, 2004.

We have reviewed the representations provided by the Public Sector Employers' Council Secretariat regarding progress in implementing the recommendations. The review was made in accordance with standards for assurance engagements established by the Canadian Institute of Chartered Accountants, and accordingly consisted primarily of enquiry, document review and discussion.

Based on our review, nothing has come to our attention to cause us to believe that the progress report prepared by the Public Sector Employers' Council Secretariat does not present fairly, in all significant respects, the progress made in implementing the recommendations contained in our February 2003 report.

Wayne Strelioff

Wayne Strelioff, FCA
Auditor General

February 2005

Summary of 2002/2003: Report 9: A Review of Government Oversight of Multi-Employer Public Sector Pension Plans in British Columbia

Audit Purpose and Scope

We carried out this review to assess whether the government has identified the risks associated with the new public sector pension plan arrangements and whether it is managing such risks adequately. In our review we sought answers to the following questions:

- Did the government clearly set out what it wanted to achieve from the Public Sector Pension Plans Act and have those results been achieved?
- Did the government adequately identify and manage the risks associated with the new public sector pension plan arrangements?
- Has the government established an appropriate oversight process with which to monitor pension plan management?
- Is the government adequately fulfilling its accountability obligations to the Legislative Assembly in reporting on public sector pension plans?

We did not assess:

- governance and administration of the pension plans themselves, including whether current contribution rates are actuarially sound;
- operations of the British Columbia Pension Corporation and the British Columbia Investment Management Corporation; or
- the consultation process with plan members that preceded the joint management agreements, and whether plan members achieved their goals related to the new pension plan arrangements.

Overall Conclusion

We concluded that the government set out what it wanted to achieve from the Public Sector Pension Plans Act and it has generally achieved what it set out to. It is adequately managing the risks associated with the new arrangements and recognizes the importance of ongoing monitoring of the plans. However, it needs to develop its capacity to do so and to secure access to the information it requires to discharge its oversight responsibilities. As well, it has to determine what it should report to the Legislative Assembly, in addition to information provided in the Public Accounts, about how it is fulfilling its oversight responsibilities.

Summary of Status of Recommendations

A Review of Government Oversight of Multi-Employer Public Sector Pension Plans in British Columbia

Original Issue Date: February 2003

Summary of Status at February 2005	OAG	Further Follow-up Required
Total Recommendations	**5**	**0**
Fully implemented	2	0
Substantially Implemented	3	0

Summary of Status of Implementation by Recommendation

A Review of Government Oversight of Multi-Employer Public Sector Pension Plans in British Columbia

Public Accounts Committee Recommendations	Implementation Status				
	Fully	Substantially	Partially	Alternative Action	No Action
1 We recommend that the government work with other plan partners to establish processes for dealing with pension plan governance or administration issues, such as the appointment of trustees, that need consultation between plan partners.		✓			
2 We recommend that the government ask the boards to provide information on the knowledge, skills and experience they need as a whole and to identify their specific needs when vacancies occur. The government should then work with the other plan partners to determine how best to fill those vacancies.		✓			
3 We recommend that the government ensure that it has sufficient resources familiar with pension plan issues and capable of effectively monitoring the plans.	✓				
4 We recommend that the government arrange to obtain the information it needs, to monitor the management of the public sector pension plans, on a timely basis.		✓			
5 We recommend that the government determine the information, in addition to that presented in the Public Accounts of the Province, it should report to the Legislative Assembly and the public about how it fulfills its oversight responsibilities relating to the public sector pension plans; and it should provide that information on a timely basis.	✓				

Progress on Implementing the Recommendations on A Review of Government Oversight of Multi-Employer Public Sector Pension Plans in British Columbia as at November 30, 2004

The Auditor General's five recommendations on Government oversight of the multi-employer public sector pension plans have all been substantially or fully implemented. Government is satisfied that its pension plan oversight arrangements are now working effectively.

1. Partner Collaboration: Government meets with other pension plan partners on an "as required" basis. There are no regularly scheduled partners' meetings, and there is no need for a regular schedule of partners meetings. Pension plan partners also collaborate on pension governance by correspondence, often conducted through the Chair of a pension Plan's board of trustees.

2. Appointment of trustees: All of the pension boards have now provided their appointing bodies with information concerning the knowledge, skills and experience needed by the board. Pension Plan partners do not generally consult with each other prior to appointing a trustee, but they do generally consult with other stakeholders in the pension plan. Adequate coordination among the appointing bodies is achieved through required nomination, stakeholder consultations, and expressions of needs by the pension boards.

3. Sufficient Human Resources for Effective Oversight: At the time the audit was conducted, government had very few staff with pension expertise, and it lacked a succession plan with respect to the key pension plan oversight position. This situation has improved remarkably. Over the past two years government has been building pension expertise within a younger group of staff. Government now has considerable back-up capacity in the area of pension policy and pension plan governance.

4. Government Access to Pension Plan Information: At the time the audit was conducted, OCG had experienced some difficulty getting timely access to unaudited financial statements of the pension plans. This matter has been resolved and OCG is now receiving plan financial information to its satisfaction. Government now has no difficulty accessing all of the information it requires for pension plan oversight. Some of the pension plans have formally articulated how required information will be provided to partners. Others are still working on a codification of their information sharing arrangements.

5. Information Provided to The Legislative Assembly and the Public: Government now tables in the Legislative Assembly the annual reports for Pension Corporation, BC Investment Management Corporation, Municipal Pension Plan, Public Service Pension Plan, Teachers' Pension Plan, College Pension Plan, and the MLA's Pension Plan. Government has also started making proactive presentations to bond rating agencies on the status of public sector pension plans. Comprehensive information on the plans is available to the public and pension plan members, primarily through the website www.pensionsbc.ca. Information on PSEC's pension oversight role has been added to the PSEC website, and included in the Ministry of Finance's draft Service Plan for 05/06.

Appendices

Appendix A

Timetable of Reports Issued and Public Accounts Committee Meetings on A Review of Government Oversight of Multi-Employer Public Sector Pension Plans in British Columbia

February 2003	The Auditor General issues the 2002/2003 Report 9: *A Review of Government Oversight of Multi-Employer Public Sector Pension Plans in British Columbia*. The report contains five recommendations.
October 2003	The Select Standing Committee on Public Accounts reviews the Auditor General's Report. The Committee accepted the Auditor General's recommendations.
February 2004	The Select Standing Committee on Public Accounts reports the results of its work from July 2003 to February 2004. The Committee endorses the five recommendations of the Auditor General's report.
February 2005	The Auditor General issues the 2004/2005 Report 11: *Follow-up of A Review of Government Oversight of Multi-Employer Public Sector Pension Plans in British Columbia*.

Appendix B

Select Standing Committee on Public Accounts – Legislative Assembly of British Columbia: Guide to the Follow-Up Process

About the Committee

The Select Standing Committee on Public Accounts is an all-party select standing committee of the Legislative Assembly. The committee is currently composed of 14 members, including a Chair and Deputy Chair. The committee is supported in its work by the Office of the Clerk of Committees, which provides procedural advice, and administrative and research support.

The committee's Terms of Reference include, but are not limited to, the following powers:

- Consider all reports of the Auditor General which have been referred to the committee by the Legislative Assembly
- Sit during a period in which the House is adjourned or recessed
- Send for persons, papers and records
- Report to the House on its deliberations.

Committee Meetings

Dates of committee meetings are posted on the Legislative Assembly web site at www.leg.bc.ca/cmt/. Committee proceedings are recorded and published in *Hansard*, which is available on the same web site.

The Auditor General and the Comptroller General are officials of the committee, and are usually present at committee meetings. During meetings, representatives of the Auditor General's office make a presentation of their audit findings.

Representatives of audited organizations also attend as witnesses before the committee, and provide information to the committee regarding actions taken to address the Auditor General's recommendations. Following each presentation, committee members are provided with the opportunity to ask questions of witnesses. Members of the Legislative Assembly may examine, in the same manner, witnesses, with the approval of the committee.

After initial consideration of a report, the committee often wishes to follow-up the progress made in implementing the Auditor General's recommendations, or recommendations made by the committee to the House, and adopted by the House. The procedures for follow-up reviews carried out by the Auditor General are outlined below.

The Follow-up Process

1. About twelve months after an audited organization's appearance before the committee, representatives of the Auditor General's office will request representatives of the audited organization that a progress update be provided to the Office of the Auditor General within a period of time (usually one month).
2. Audited organizations must prepare a written response in the format noted below, and direct it to the Office of the Auditor General. In drafting the written response, organization representatives may wish to consult with the Office of the Comptroller General, and/or the Office of the Auditor General. As well, the Office of the Clerk of Committees would be pleased to answer any questions regarding the work of the committee, and committee procedure.
3. All written responses submitted by audited organizations are reviewed by the Office of the Auditor General to confirm the fairness of information about the progress made in implementing the recommendations contained in the Auditor General's report.
4. After completion of his review, the Auditor General issues a report to the Legislative Assembly, which includes the Auditor General's opinion on the status provided by the organization. The report is referred to the Select Standing Committee of Public Accounts.
5. Following review of the Auditor General's report, the committee may request that representatives of the audited organization appear before the committee to provide further information, or that further information be provided to the committee in written form.
6. The Office of the Comptroller General will arrange for witnesses to attend where the committee has asked for a presentation based on the written followup.

Format of Written Responses

Written follow-up information prepared by audited organizations in response to a request from the Office of the Auditor General should include the following items:

- Date of the written response.
- A brief introduction to and summary of the topic being considered, including a reference to the period during which the audit was conducted, date(s) the audit was considered by the Public Accounts Committee, and how many of the recommendations have been fully implemented, substantially implemented, partially implemented, alternative action taken and no action taken to date.

- A brief response to each recommendation made by the Auditor General and by the Public Accounts Committee (unless specifically advised to address only particular recommendations), including all actions taken to implement each recommendation.
- A work plan for implementation of the Auditor General's and the Public Accounts Committee's recommendations, including information on the means by which each recommendation will be implemented, time frames for implementation, identification of branches with primary responsibility for implementation, and procedures in place to monitor progress in implementing the recommendations.
- Any other information relevant to the Auditor General's or Public Accounts Committee's recommendations, including planned or current projects, studies, seminars, meetings, etc.
- Contact information for ministry/government organization representatives who have primary responsibility for responding to the Auditor General's and Public Accounts Committee's recommendations (name, title, branch, phone and fax numbers, e-mail address).
- The reports are to be signed by a senior official responsible for the area, normally a Deputy Minister, an Assistant Deputy Minister or Vice-President.
- Reports should be relatively brief (e.g. 5–10 pages), although attachments are acceptable. If guidance is needed in preparing the follow-up report, please contact any of the offices noted below.

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Appendix C

Office of the Auditor General: Follow-up Objectives and Methodology

Purpose of Following Up Audits

The Office conducts follow-up reviews in order to provide the Legislative Assembly and the public with information on the progress being made by government organizations in implementing the recommendations arising from the original work.

Performance audits are undertaken to assess how government organizations have given attention to economy, efficiency and effectiveness.

The concept of performance audits is based on two principles. The first is that public business should be conducted in a way that makes the best possible use of public funds. The second is that people who conduct public business should be held accountable for the prudent and effective management of the resources entrusted to them.

The Nature of Audit Follow-ups

A follow-up of an audit comprises:

1. requesting management to report the actions taken and to assess the extent to which recommendations identified in the original audit report have been implemented;
2. reviewing management's response to ascertain whether it presents fairly, in all significant respects, the progress being made in dealing with the recommendations;
3. determining if further action by management is required and, consequently, whether further follow-up work by the Office will be necessary in subsequent years; and
4. reporting to the Legislative Assembly and the public the responses of management and the results of our reviews of those responses.

The Nature of a Review

A review is distinguishable from an audit in that it provides a moderate rather than a high level of assurance. In our audits, we provide a high, though not absolute, level of assurance by designing procedures so that the risk of an inappropriate conclusion is reduced to a low level. These procedures include inspection, observation, enquiry, confirmation, analysis and discussion. Use of the term "high level of

assurance" refers to the highest reasonable level of assurance auditors provide on a subject. Absolute assurance is not attainable since an audit involves such factors as the use of judgement, the use of testing, the inherent limitations of control and the fact that much of the evidence available to us is persuasive rather than conclusive.

In a review, we provide a moderate level of assurance by limiting procedures to enquiry, document review and discussion, so that the risk of an inappropriate conclusion is reduced to a moderate level and the evidence obtained enables us to conclude the matter is plausible in the circumstances.

Scope of Audit Follow-ups

The follow-ups focus primarily on those recommendations that are agreed to by management at the time of the original audit or study. Where management does not accept our original recommendations, this is reported in managements' responses to the original audit reports. Since our reports are referred to the Legislative Assembly's Select Standing Committee on Public Accounts, management's concerns with our recommendations in some cases are discussed by the committee, which may also make recommendations for future action. If the committee endorses our recommendations, we include them in a follow-up. We also include any other recommendations made directly by the committee.

Frequency of Reporting on Audit Follow-ups

We follow the process agreed to between the Office of the Auditor General, the Office of the Controller General and the Public Accounts Committee (Appendix A).

Review Standards

We carry out our follow-up reviews in accordance with the standards for assurance engagements established by the Canadian Institute of Chartered Accountants.

Methods of Obtaining Evidence

Our reviews involve primarily enquiry, document review and discussion.

Enquiry consists of seeking appropriate information of knowledgeable persons within or outside the entity being audited. Types of enquiries include formal written enquiries addressed to third parties and informal oral enquiries addressed to persons within the entity. Consistent responses from different sources provide an increased degree of assurance, especially when the sources that provide the information are independent of each other.

Document review consists of examining documents such as minutes of senior management meetings, management plans, and manuals and policy statements to support assertions made in management's written report.

Discussion consists primarily of interviews with key management and staff, as necessary, for further verification and explanation.

Appendix D

Office of the Auditor General: 2004/2005 Reports Issued to Date

Report 1 – April 2004

Follow-up of Performance Reports

Managing Interface Fire Risks

Transportation in Greater Vancouver:
A Review of Agreements Between the Province and TransLink, and of TransLink's Government Structure

Report 2 – June 2004

In Sickness and in Health: Healthy Workplaces for British Columbia's Health Care Workers

Report 3 – October 2004

Preventing and Managing Diabetes in British Columbia

Report 4 – October 2004

Internal Audit in Health Authorities: A Status Report

Report 5 – October 2004

Salmon Forever: An Assessment of the Provincial Role in Sustaining Wild Salmon

Report 6 – November 2004

Leading the Way—Adopting Best Practices in Government Financial Reporting 2003/2004

Report 7 – November 2004

Monitoring the Government's Finances
Province of British Columbia

Report 8 – December 2004

Follow-up of Managing Contaminated Sites on Provincial Lands

Report 9 – December 2004

Follow-up of Two Health Risk Reports:

- A Review of Performance Agreements
- Information Use in Resource Allocation

Report 10 – February 2005

Building a Strong Public Service: Reassessing the Quality of the Work Environment in British Columbia's Public Service

Report 11 – February 2005

Follow-up of A Review of Government Oversight of Multi-Employer Public Sector Pension Plans in British Columbia

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